

DOCKET NO. 2020-202-E

Application of Duke Energy Carolinas,
LLC for Authorization Under Article 13,
Chapter 27 of Title 58 of the Code of Laws
of South Carolina (1976, as Amended) to
Issue and Sell Securities

**DIRECT TESTIMONY OF
JOHN L. SULLIVAN, III
ON BEHALF OF
DUKE ENERGY CAROLINAS, LLC**

I. INTRODUCTION AND PURPOSE

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is John Sullivan and my business address is 550 South Tryon, Charlotte, North Carolina.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am the Assistant Treasurer and Director of Corporate Finance for Duke Energy.

Q. PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES IN YOUR POSITION WITH DUKE ENERGY.

A. I am responsible for financing the operations of Duke Energy and its subsidiary utilities. This includes the issuance of new debt and equity securities, and obtaining other sources of external funds. My responsibilities also include financial risk management for Duke Energy and its subsidiaries. Additionally, I maintain relationships with Duke Energy's commercial banks, the fixed income investor community and the credit rating agencies.

Q. PLEASE BRIEFLY SUMMARIZE YOUR EDUCATIONAL AND PROFESSIONAL EXPERIENCE.

A. I received a Bachelor of Arts degree from the University of North Carolina-Chapel Hill in 1995 and an MBA degree from Wake Forest University in 2000. From 2000 to 2009, I worked in Bank of America's Global Corporate & Investment Banking unit, providing corporate finance, capital markets and strategic advisory services to energy and power clients. In 2009, I joined Duke Energy as a General Manager in the Treasury group. In 2010, I moved to Duke Energy's Corporate Development group where I served as a Director responsible for managing various strategic transactions for the Company's

1 regulated and commercial businesses. In January 2016, I returned to Duke Energy's
2 Treasury department and assumed my current role.

3 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC SERVICE**
4 **COMMISSION OF SOUTH CAROLINA ("COMMISSION")?**

5 A. I have testified on behalf of Duke Energy Carolinas and Duke Energy Progress in
6 proceedings before the South Carolina Public Service Commission in Docket No.
7 2018-319-E and Docket No. 2018-318-E. I have also testified on behalf of Duke
8 Energy utilities in North Carolina, Ohio, Indiana and Kentucky.

9 **Q. ARE YOU INCLUDING ANY EXHIBITS IN SUPPORT OF YOUR TESTIMONY?**

10 A. Yes. I am sponsoring the presentation that was presented to the Commission during the
11 virtual forum on October 22, 2020 and is attached as Sullivan Exhibit 1.

12 **Q. WAS THIS EXHIBIT PREPARED BY YOU OR AT YOUR DIRECTION AND**
13 **UNDER YOUR SUPERVISION?**

14 A. Yes, this exhibit was prepared by me or at my direction and under my supervision.

15 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

16 A. The purpose of my testimony is to provide the Commission with additional information
17 regarding the Company's Application filed in this docket.

18 **Q. PLEASE PROVIDE INFORMATION ON THE POSSIBLE IMPACT ON THE**
19 **COMPANY IF THE PROPOSED FINANCING IS NOT APPROVED OR IF**
20 **APPROVAL IS DELAYED.**

21 A. As Witness Morgan testified, disapproval or delay of the Application would prevent the
22 Company from having access to capital for significant ongoing projects. On top of those
23 projects, the Company has existing debt coming due. Not being able to satisfy that

1 principle repayment of existing indebtedness would put pressure on the Company's
2 liquidity and credit profile, and potentially result in insolvency.

3 **Q. WHAT IS THE COMPANY'S DEADLINE FOR COMMISSION APPROVAL TO**
4 **AVOID THESE FINANCIAL PRESSURES?**

5 A. To maintain financial flexibility, the Company seeks the necessary approvals to access the
6 long-term capital markets beginning in January 2021. For that reason, the Company
7 requests Commission approval by mid-December 2020.

8 **Q. CAN YOU EXPLAIN MORE ABOUT SHELF REGISTRATION WITH THE**
9 **COMPANY'S SECURITIES AND EXCHANGE COMMISSION (SEC)?**

10 A. Yes. SEC regulations require a securities shelf registration every three years. For Duke
11 Energy, we file a registration statement that allows for an unlimited amount of various
12 types of securities to be issued by Duke Energy Corporation and each individual utility
13 registrant owned by Duke. In addition to this SEC shelf registration, each utility subsidiary
14 of Duke obtains a specified amount authorized from its regulatory commission .

15 **Q. WHAT IS THE EXPIRATION DATE FOR THE AMOUNT REQUESTED IN THE**
16 **COMPANY'S APPLICATION?**

17 A. There is no expiration date of the amount requested in DEC's long-term financing
18 application filed with the South Carolina Commission. Each time the Company issues a
19 new security or enters a long-term financing arrangement, the amount of the issuance is
20 deducted from its remaining authorized balance. Once the Company has depleted its
21 financing authority to a level that may no longer ensure constant access to the capital
22 markets, the Company will file a new long-term financing application with the South
23 Carolina Commission to replenish its authority. The previous two DEC financing

1 applications have requested the same notional amount as requested in this Application. In
2 each of those cases, the approved financing amount was sufficient to finance the Company
3 for approximately two years.

4 **Q. CAN YOU PROVIDE ADDITIONAL INFORMATION ON THE INTEREST-**
5 **RATE MANAGEMENT AGREEMENTS?**

6 A. Yes. DEC has primarily used interest-rate management agreements to hedge upcoming
7 debt refinancings. When the Company has significant maturities or capital needs, the
8 Treasury team may look to enter a pre-issuance hedge in which we are able to lock-in the
9 underlying Treasury rate. This allows the Company to manage interest rate volatility that
10 may occur at the timing of DEC's next debt issuance.

11 **Q. WHO ARE SOME OF THE KEY FINANCIAL INSTITUTIONS THAT YOU**
12 **WORK WITH ON INTEREST-RATE MANAGEMENT AGREEMENTS?**

13 A. DEC has International Swaps and Derivatives Association (ISDA) agreements in place
14 with Goldman Sachs, MUFG, Morgan Stanley, Royal Bank of Canada (RBC), TD Bank,
15 and U.S. Bank.

16 **Q. HOW DO INTEREST-RATE MANAGEMENT AGREEMENTS BENEFIT**
17 **RATEPAYERS?**

18 A. The Company always enters into a treasury lock when doing so mitigates risk and the
19 Company is comfortable living with that given rate. There are circumstances when the
20 interest rate does continue to lower, but there are also circumstances when the Company
21 locks in and the rate goes up after. Ultimately, the Company always enters into a rate lock
22 when living with that rate is good for the customer. As of today, Duke Energy Carolinas

1 has \$11.4 billion of outstanding long-term debt, and its weighted average coupon is less
2 than 5%.

3 **Q. DO YOU INTEND TO USE SOME OF THE FINANCING AUTHORITY YOU**
4 **RECEIVE IN THIS APPLICATION TO REFINANCE MATURING DEBT?**

5 A. Yes. DEC has \$1.85 billion maturing through 2023 and will use some of the financing
6 authority we are currently seeking to refinance maturing debt into new debt with potentially
7 a lower interest rate.

8 **Q. IS THERE A PREPAYMENT PENALTY WHEN THE COMPANY REFINANCES**
9 **BEFORE THE LOAN MATURES?**

10 A. Most of the debt that is maturing in the next several years have optional redemption
11 provisions containing make-whole premiums. These premiums can make the early
12 redemption of outstanding bonds expensive and cost-prohibitive, especially during periods
13 of low prevailing interest rates. The Company's general practice has been to refinance
14 maturing debt within a three-month window of the maturing debt's maturity date.

15 **Q. HOW DOES THE COMPANY INTEND TO BRIDGE THE GAP BETWEEN THE**
16 **AMOUNT REQUESTED IN ITS APPLICATION AND ITS EXPECTED CAPITAL**
17 **PROJECT EXPENDITURES?**

18 A. The Company utilizes short-term borrowings to fund ongoing operations and capital
19 expenditures. When cash forecasts show a sustained level of short-term borrowings, some
20 or all of the short-term balances may be termed out with a long-term debt issuance. The
21 index eligible size for a long-term debt offering in the debt capital markets is \$300 million.
22 DEC's short-term borrowing capacity provides flexibility to (1) remain out of the debt

capital markets for longer periods, (2) term out short-term borrowings when favorable market conditions exist, and (3) issue larger, more liquid tranches of long-term debt.

Q. HOW ARE THE BENEFITS OF INVESTMENTS FUNDED AT LOWER INTEREST RATES ALLOCATED TO SOUTH CAROLINA RATEPAYERS?

A. Each time the Company refinances higher cost debt with lower cost debt, that impacts its weighted average cost of long-term debt. Each time DEC comes before the Commission with a rate case the Commission revisits the revenue requirements, and the lower cost of capital influences the rate-setting process to the benefit of the Company's customers.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.



Application of Duke Energy Carolinas, LLC, for Authorization to Issue and Sell Securities

Docket No. 2020-202-E

October 22, 2020

INTRODUCTIONS & AGENDA

- Introductions
- Legal & Regulatory Background
- Process Overview
- Transactions Under Docket No. 2018-218-E, Order No. 2018-538
- Financing Application
- Questions

LEGAL AND REGULATORY BACKGROUND

- S.C. Code Ann. § 58-27-1710 – electric utilities must obtain approval from the Commission to issue securities payable beyond one year from their issuance.
- S.C. Code Ann. § 58-27-1720 – the verified application must include certain information (e.g., amount and character of the securities, purpose for which they are to be issued, etc.).
- S.C. Code Ann. § 58-27-1730 – ORS must review the request and provide the results of its review.
- The Commission then issues an order on the application.
- S.C. Code Ann. Regs. 103-706 provides analog requirements.

LEGAL AND REGULATORY BACKGROUND

- Most recent DEC and DEP dockets are as follows:
 - DEP, DN 2016-398-E, linked here: <https://dms.psc.sc.gov/Web/Dockets/Detail/116138>
 - DEP, DN 2019-298-E, linked here: <https://dms.psc.sc.gov/Web/Dockets/Detail/117255>
 - DEC, DN 2016-63-E, linked here: <https://dms.psc.sc.gov/Web/dockets/Detail/115800>
 - DEC, DN 2018-218-E, linked here: <https://dms.psc.sc.gov/Web/dockets/Detail/116771>
 - DEC, DN 2020-202-E, linked here: <https://dms.psc.sc.gov/Web/dockets/Detail/117544>

LEGAL AND REGULATORY BACKGROUND

Docket	Date	Type	Summary
2016-63-E	2/12/2016	Application	DEC Application for Approval to Issue and Sell Securities; \$4B
2016-63-E	2/25/2016	Letter	ORS Review Letter
2016-63-E	3/2/2016	Directive	Commission Directive approving securities application
2016-63-E	3/8/2016	Order	Commission Order No. 2016-167 approving securities application
2016-63-E	4/4/2016	Report	DEC Report of Issue and Sale of Securities; \$1B sale, \$3B remaining
2016-63-E	11/17/2017	Report	DEC Report of Issue and Sale of Securities; \$1.15B sale, \$1.85B remaining
2016-63-E	3/20/2018	Report	DEC Report of Issue and Sale of Securities; \$1B sale, \$0.85B remaining
2018-218-E	6/29/2018	Application	DEC Application for Approval to Issue and Sell Securities

DEC FINANCING APPLICATION – PROCESS OVERVIEW

Application Filed

- Duke Energy Carolinas (DEC) files long-term financing application with Public Service Commission of South Carolina (PSCSC), and a copy is provided to the Office of Regulatory Staff (ORS).

Order Received

- DEC receives Financing Order granting the Company authority to issue, sell, and transact an aggregate amount of securities and other long-term financing arrangements.

DEC Issues Securities

- DEC enters into long-term financing arrangements in accordance with the Financing Order received from the PSCSC.
- After each issuance of long-term debt, DEC files a notice of issuance with the PSCSC detailing the terms of the transaction.

Balance Depleted

- DEC's authorized long-term financing balance is insufficient to ensure the Company can maintain access to the capital or bank loan markets.
- The Company begins the process of filing a new long-term financing application, which once approved, terminates any remaining authority under the existing Order.

TRANSACTIONS UNDER DOCKET No. 2018-218-E, ORDER No. 2018-538

Description	Date	Amount	Authorized Balance
Financing Order Received	8/1/2018	\$4,000,000,000	\$4,000,000,000
Cliffside PSNC Pipeline Lease	10/22/2018	\$54,893,741	\$3,945,106,259
3.35% First Mortgage Bond (FMB) due 2022	11/8/2018	\$500,000,000	\$3,445,106,259
3.95% FMB due 2028	11/8/2018	\$500,000,000	\$2,945,106,259
2.45% FMB due 2029	8/14/2019	\$450,000,000	\$2,495,106,259
3.20% FMB due 2049	8/14/2019	\$350,000,000	\$2,145,106,259
Clemson Pipeline Lease	10/1/2019	\$3,804,920	\$2,072,386,746
Belews Creek Pipeline Lease	11/1/2019	\$68,914,593	\$2,076,191,666
Charlotte Metro Tower Lease	12/23/2019	\$675,000,000	\$1,397,386,746
2.45% FMB due 2030	1/8/2020	\$500,000,000	\$897,386,746
3.20% FMB due 2049	1/8/2020	\$400,000,000	\$497,386,746
Lincoln Pipeline Lease	5/28/2020	\$3,159,394	\$494,227,352
Marshall Pipeline Lease	5/28/2020	\$119,046,390	\$375,180,962

FINANCING APPLICATION

- DEC requests authority to issue and sell a maximum of \$4.0 billion aggregate principal amount of the following securities, consistent with the previous application in Docket No. 2018-218-E:
 - Long-term Debt Securities (e.g. unsecured debt instruments, first mortgage bonds, etc.)
 - Long-term Bank Borrowings (in excess of one year in duration)
 - Tax Exempt Bond Obligations
 - Finance Lease Obligation (previously termed capital leases)
- DEC also seeks authority to enter into Interest Rate Management Agreements

QUESTIONS?